

CITY OF TRAER

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2015

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City of Traer

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2016
Carri Holst	Mayor Pro Tem	Jan 2016
Raymond Mundt	Council Member	Jan 2018
Steph Foster	Council Member	Jan 2018
Dahn Kennedy	Council Member	Jan 2016
Carri Holst	Council Member	Jan 2016
Craig Yovel	Council Member	Jan 2018
Jon Panfil	Clerk / Treasurer	Appointed
Bruce Reinders	Attorney	Appointed
Joe Morris	TMU Trustee/Chairman	Jan 2021
Nick Podhajsky	TMU Trustee	Jan 2020
Sandra Whannel	TMU Trustee	Jan 2016
Suzanne Early	TMU Trustee	Jan 2017
Dann Larmore	TMU Trustee	Jan 2018
Pat Steif	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite

City of Traer

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, City of Traer adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of the City's contributions on pages 5 through 10 and 29 through 36 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2015, on our consideration of the City of Traer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Traer's internal control over financial reporting and compliance.

Murphy, Smith & Co. PLLC
Certified Public Accountants
Osage, Iowa
November 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Traer provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 24.1%, or approximately \$585,000 from fiscal year 2014 to fiscal year 2015. Operating grants and contributions decreased, while property tax increased approximately \$161,000 and \$21,000, respectively. Charges for services increased approximately \$24,000.
- Disbursements of the City's governmental activities decreased 2.3%, or approximately \$45,000, in fiscal year 2015 from fiscal year 2014. Public safety and debt service disbursements increased, while public works disbursements decreased approximately \$102,000, \$25,000 and \$33,000, respectively.
- The City's total cash basis net position decreased 6.6%, or approximately \$164,000, from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities decreased approximately \$268,000 and the cash basis net position of the business type activities decreased approximately \$104,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric service, waterworks and sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Traer Municipal Utilities Electric, Water, Sewer and Telecom Funds and the City Sewer Fund, considered to be major funds of the City.

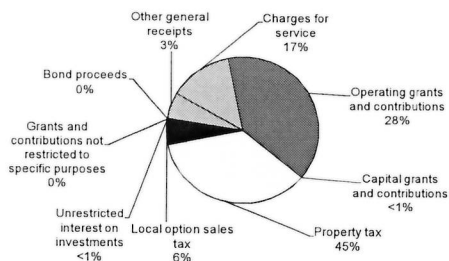
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

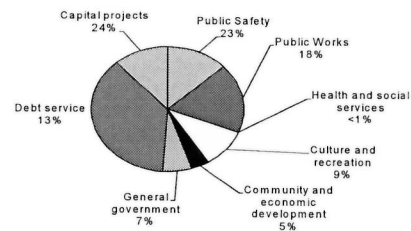
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$1,698 thousand to approximately \$1,455 thousand. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 319	\$ 295
Operating grants and contributions	514	211
Capital grants and contributions	10	474
General receipts:		
Property tax	825	804
Local option sales tax	106	105
Grants and contributions not restricted to specific purposes	-	1
Bond proceeds	-	509
Unrestricted interest on investments	1	1
Other general receipts	63	23
Total receipts	1,838	2,423
Disbursements:		
Public safety	510	408
Public works	401	434
Health and social services	5	5
Culture and recreation	209	206
Community and economic development	102	61
General government	147	149
Debt service	279	271
Capital projects	534	698
Total disbursements	2,187	2,232
Change in cash basis net position before transfers	(349)	191
Transfers, net	106	128
Change in cash basis net position	(243)	319
Cash basis net position beginning of year	1,698	1,379
Cash basis net position end of year	\$ 1,455	\$ 1,698

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 24.1%, or approximately \$585,000. The total cost of all programs and services decreased approximately \$45,000, or 2.1%. The decrease in receipts was primarily the result of a larger bond refinancing in FY 2014.

The cost of all governmental activities this year was approximately \$2.187 million compared to approximately \$2.232 million last year. However, as shown in the Statement of Activities and Net Position on pages 11-12, the amount taxpayers ultimately financed for these activities was only \$1.456 million because some of the cost was paid by those directly benefited from the programs (approximately \$319,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$612,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased by approximately \$585,000 in FY2015, from \$2,423,000 to \$1,838,000. This decrease was due to primary to a bond issue in 2014.

Changes in Cash Basis Net position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Electric	2,292	2,225
Water	376	386
Sewer	164	170
Telecom	107	105
General receipts:		
Unrestricted interest on investments	1	1
Bond proceeds	-	-
Total receipts	2,940	2,887
Disbursements:		
Electric	2,334	2,439
Water	361	367
Sewer	146	145
Telecom	97	69
Total disbursements	2,938	3,020
Change in cash basis net position before transfers	2	(133)
Transfers, net	(106)	(128)
Change in cash basis net position	(104)	(261)
Cash basis net position beginning of year	1,116	1,377
Cash basis net position end of year	\$ 1,012	\$ 1,116

Total business type activities receipts and other financing sources for the fiscal year were approximately \$2.940 million compared to approximately \$2.887 million last year. This increase was due primarily to normal variations in utility usage. The cash balance decreased approximately \$104,000 from the prior year. Total disbursements for the fiscal year decreased 2.7% to approximately \$2.938 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$1,456,351, a decrease of \$242,013 above last year's total of \$1,698,365. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$277,575 from the prior year to \$1,366,439. This decrease was due primarily to a completed bond financing in June 2014.
- The Debt Service Fund cash balance increased \$6,758 to \$7,758. This increase was due to minor differences between actual payments and budgeted payments.
- The Capital Projects Fund cash balance increased \$16,050 to \$44,081. This increase was due to reserves not being expended during FY2015.
- The Road Use Fund cash balance increased \$7,526 to \$8,526. This increase was due to minor differences between actual payments and budgeted payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, TMU Electric Fund cash balance decreased \$147,442 to \$687,212, due primarily to payments on the Wind Turbine lease.
- The Enterprise, TMU Water Fund cash balance increased \$15,502 to \$173,511, due primarily to prior rate increases and cost containment.
- The Enterprise, TMU Sewer Fund cash balance increased \$16,917 to \$83,203, due primarily to rate increases and cost containment.
- The Enterprise, TMU Telecom Fund cash balance increased \$10,700 to \$19,888. This increase was due to normal operations.
- The Enterprise, City Sewer Fund cash balance increased \$1,100 to \$49,018, due primarily to normal operations and not as many repairs as in previous year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 4, 2015 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$6,381 more than budgeted. This was primarily due to the timing of state reimbursements for the Mill Street Bridge Project. Total disbursements were \$537,451 less than the amended budget. This was primarily due to the timing of other expenditures and less spent on the Industrial Building than was budgeted.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$2,557,000 in bonds and other long-term debt outstanding, compared to \$3,023,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2015	2014
General obligation bonds and notes	\$ 1,730	\$ 2,010
Revenue bonds	440	580
State revolving loans	387	433
Total	\$ 2,557	\$ 3,023

Debt decreased as a result of new bond issue in FY2014 but not during the current fiscal year. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue up to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,730,000 is approximately 44% of its constitutional debt limit of approximately \$3.944 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Traer's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates and fees charged for various City activities. The City Council was facing continued state funding cutbacks and only a small increase in taxable value.

Taxable value in the City of Traer increased .2%, from \$47.7 million to \$48.3 million. The tax rate for FY16 increased slightly from \$16.96 per thousand to \$16.83 per thousand. Tax revenues were budgeted to increase approximately \$12,000 in FY16, and total revenues were projected to increase approximately \$52,000. Expenditures were projected to decrease by about \$295,000. Overall, cash balances were expected to decrease by about \$180,000.

The Traer Municipal Utilities Board approved a budget with overall revenues and expenses projected to be relatively flat between FY16 and FY17.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon Panfil, City Clerk, 649 Second Street, Traer, Iowa 50675.

Basic Financial Statements

City of Traer

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 509,965	171,813	131,949	-
Public works	400,699	131,291	369,136	9,739
Health and social services	4,482	3,877	-	-
Culture and recreation	209,237	11,043	12,634	-
Community and economic development	102,326	-	-	-
General government	147,098	1,413	-	-
Debt service	279,128	-	-	-
Capital projects	533,622	-	-	-
Total governmental activities	2,186,557	319,437	513,719	9,739
Business type activities				
Electric	2,333,313	2,292,149	-	-
Water	361,340	376,750	-	-
Sewer	146,193	164,155	-	-
Telecom	97,124	107,806	-	-
Total business type activities	2,937,970	2,940,860	-	-
Total primary government	\$ 5,124,527	3,260,297	513,719	9,739
Component Unit				
Traer Ambulance Service	\$ 24,433	-	30,745	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Bond Proceeds, net of fees, etc.				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted:				
Total cash basis net position				
See notes to financial statements.				

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position				
Primary Government				
Governmental	Business Type		Component	
Activities	Activities	Total	Unit	
(206,203)	-	(206,203)	-	-
109,467	-	109,467	-	-
(605)	-	(605)	-	-
(185,560)	-	(185,560)	-	-
(102,326)	-	(102,326)	-	-
(145,685)	-	(145,685)	-	-
(279,128)	-	(279,128)	-	-
(533,622)	-	(533,622)	-	-
(1,343,662)	-	(1,343,662)	-	-
-	(41,164)	(41,164)	-	-
-	15,410	15,410	-	-
-	17,962	17,962	-	-
-	10,682	10,682	-	-
-	2,890	2,890	-	-
(1,343,662)	2,890	(1,340,772)	-	-
-	-	-	6,312	-
\$ 612,106	-	612,106	-	-
213,056	-	213,056	-	-
106,670	-	106,670	-	-
-	-	-	-	-
-	-	-	-	-
536	389	925	160	-
62,757	-	62,757	-	-
106,502	(106,502)	-	-	-
1,101,627	(106,113)	995,514	160	-
(242,035)	(103,223)	(345,258)	6,472	-
1,379,450	1,377,521	2,756,971	88,337	-
\$ 1,137,415	1,274,298	2,411,713	94,809	-
\$ -	-	-	-	-
8,526	-	8,526	-	-
7,758	196,445	204,203	-	-
73,628	816,387	890,015	94,809	-
1,047,503	261,466	1,308,969	-	-
\$ 1,137,415	1,274,298	2,411,713	94,809	-

City of Traer

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2015

		Special Revenue	
	General	Road Use Tax	Debt Service
Receipts:			
Property tax	\$ 456,520	-	213,056
Other city tax	9,200	-	-
Licenses and permits	1,413	-	-
Use of money and property	6,261	-	-
Intergovernmental	338,331	177,083	-
Charges for service	314,827	-	-
Miscellaneous	68,275	-	-
Total receipts	1,194,827	177,083	213,056
Disbursements:			
Operating:			
Public safety	509,965	-	-
Public works	162,735	237,964	-
Health and social services	4,482	-	-
Culture and recreation	209,237	-	-
Community and economic development	70,856	-	-
General government	147,098	-	-
Debt service	-	-	279,128
Capital projects	-	-	-
Total disbursements	1,104,373	237,964	279,128
Excess (deficiency) of receipts over (under) disbursements	90,454	(60,881)	(66,072)
Other financing sources (uses):			
Operating transfers in	322,881	68,407	72,830
Operating transfers out	(690,910)	-	-
Bond proceeds, net of fees, and discounts (10,600)	-	-	-
Total other financing sources (uses)	(368,029)	68,407	72,830
Net change in cash balances	(277,575)	7,526	6,758
Cash balances beginning of year	1,644,014	1,000	1,000
Cash balances end of year	\$ 1,366,439	8,526	7,758
Cash Basis Fund Balances			
Restricted For:			
Debt service	\$ -	-	7,758
Streets	-	8,526	-
Capital projects fund	-	-	-
For other purposes	-	-	-
Unassigned	1,366,439	-	-
Total cash basis fund balances	\$ 1,366,439	8,526	7,758

See notes to financial statements.

Exhibit B

Capital Projects	Nonmajor	Total
-	146,386	815,962
-	106,690	115,890
-	-	1,413
-	-	6,261
-	-	515,414
-	-	314,827
-	-	68,275
-	253,076	1,838,042
-	-	509,965
-	-	400,699
-	-	4,482
-	-	209,237
-	31,470	102,326
-	-	147,098
-	-	279,128
533,622	-	533,622
533,622	31,470	2,186,557
(533,622)	221,606	(348,515)
549,672	-	1,013,790
-	(216,378)	(907,288)
-	-	-
549,672	(216,378)	106,502
16,050	5,228	(242,013)
28,031	24,319	1,698,364
44,081	29,547	1,456,351
-	-	7,758
-	-	8,526
44,081	-	44,081
-	29,547	29,547
-	-	1,366,439
44,081	29,547	1,456,351

City of Traer
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2015

	Enterprise Funds			
	Traer Municipal Utilities			
	Electric	Water	Sewer	Telecom
Operating receipts:				
Charges for service	\$ 2,292,149	376,750	164,155	107,806
Operating disbursements:				
Business type activities	2,180,138	313,415	92,293	97,124
Excess (deficiency) of operating receipts over (under) operating disbursements	112,011	63,335	71,862	10,682
Non-operating receipts (disbursements):				
Interest on investments	224	92	55	18
Debt service	(153,175)	(47,925)	-	-
Net non-operating receipts (disbursements)	(152,951)	(47,833)	55	18
Excess (deficiency) of receipts over (under) disbursements	(40,940)	15,502	71,917	10,700
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(106,502)	-	(55,000)	-
Total other financings sources (uses)	(106,502)	-	(55,000)	-
Change in cash balances	(147,442)	15,502	16,917	10,700
Cash balances beginning of year	834,654	158,009	66,286	9,188
Cash balances end of year	\$ 687,212	173,511	83,203	19,888
Cash Basis Fund Balances				
Restricted for debt service	\$ 175,000	-	-	-
Unrestricted	512,212	173,511	83,203	19,888
Total cash basis fund balances	\$ 687,212	173,511	83,203	19,888

See notes to financial statements.

Exhibit C

TMU	City	
Sub-Total	Sewer	Total
\$ 2,940,860	-	\$ 2,940,860
2,682,970	-	2,682,970
257,890	-	257,890
389	-	389
(201,100)	(53,900)	(255,000)
(200,711)	(53,900)	(254,611)
57,179	(53,900)	3,279
-	55,000	55,000
(161,502)	-	(161,502)
(161,502)	55,000	(106,502)
(104,323)	1,100	(103,223)
1,068,137	47,918	1,116,055
\$ 963,814	49,018	\$ 1,012,832
175,000	21,445	196,445
788,814	27,573	816,387
963,814	49,018	1,012,832

City of Traer

City of Traer

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides electric, water, sewer and telecom utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Traer has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Based on the foregoing criteria, Traer Municipal Utilities (TMU) is considered to be part of the primary government and, therefore, the financial information for TMU is included in the City's financial statements. The financial activities of TMU are reported as Enterprise Funds.

These government financial statements present the City of Traer (the primary government) and the Traer Ambulance Service (component unit). The component unit, discussed below, is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

Traer Ambulance Service is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Traer Ambulance Service is organized as a non-profit corporation. The Ambulance Service collects donations which are to be used to purchase items not included in the City's budget and to help finance new ambulance equipment.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, City Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Landfill Commission, Code Red, and Tama County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for the new development of various capital projects.

The City reports the following major proprietary funds:

The Enterprise, TMU Electric Fund accounts for the operation and maintenance of the City's electrical system.

The Enterprise, TMU Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, TMU Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, TMU Telecom Fund accounts for the operation and maintenance of the City's telecommunications system.

The Enterprise, City Sewer Fund accounts for principal and interest payments of the Sewer Revenue Bonds.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursements toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public works function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2015, the City and Traer Municipal Utilities had investments in the Iowa Public Agency Investment Trust which are valued at an amortized amount of \$1,176,275 and \$578,227, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, revenue bonds and state revolving loans are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		State Revolving Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	285,000	55,245	140,000	8,790	48,000	6,772	473,000	70,807
2017	280,000	93,960	150,000	5,700	50,000	5,933	480,000	105,593
2018	290,000	86,929	150,000	1,988	52,000	5,057	492,000	93,974
2019	295,000	104,394	-	-	54,000	4,148	349,000	108,542
2020-2023	580,000	318,000	-	-	183,000	6,737	763,000	324,737
Total	\$ 1,730,000	658,528	440,000	16,478	387,000	28,647	2,557,000	703,653

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

Revenue Bonds

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$980,000 of Electric Revenue Capital Loan Notes, Series 2011 issued in July 2011. Proceeds from the notes provided financing for the purpose of refinancing the outstanding Electric Revenue Capital Loan Notes, Series 2003. The notes are payable solely from electric customer net receipts and are payable through 2018. The total principal and interest remaining to be paid on the notes is \$456,478. For the current year, principal and interest paid and total customer net receipts were \$152,675 and 112,011, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$757,000 of sewer revenue notes issued in August 2001 and \$101,000 of sewer revenue notes issued in August 2003. Proceeds from the notes provided financing for the construction of improvements to and conversion of the discharge lagoon treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the notes is \$415,648. For the current year, principal and interest paid and total customer net receipts were \$53,578 and \$71,862, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate electric and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer sinking fund to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise funds shall be made until specific minimum balances have been accumulated. Additional monthly transfers shall also be made to the electric and sewer reserve accounts to accumulate amounts equal to the maximum principal and interest due in any succeeding fiscal year. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula use to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$68,871.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$397,091. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.010012 percent, which was an increase of 0.000254 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City's collective pension expense, collective deferred outflows and collective deferred inflows totaled \$45,591, \$39,972 and \$141,787 respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (Effective June 30, 2014)	3.00 percent per annum
Rate of salary increase (Effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term Investment Rate of Return (Effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of returns for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the

City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
City's proportionate share of the net pension liability	\$797,520	\$397,091	\$102,451

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 14 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are now based on the age of the employee and vary from \$520 to \$794 for single coverage and \$825 to \$1,742 for family coverage. For the year ended June 30, 2015, the City contributed \$98,730 and plan members eligible for benefits contributed \$19,284 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2015, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
City	
Vacation	\$ 7,092
Sick leave	1,558
TMU	
Vacation	25,810
Sick leave	<u>5,601</u>
Total	<u>\$ 40,061</u>

This liability has been computed based on rates of pay in effect at June 30, 2015.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 146,386
	Local Option Sales Tax	69,992
	Enterprise:	
	TMU-Electric	<u>106,503</u>
		322,881
Special Revenue: Road Use Tax	General	68,407
Debt Service	General	72,829
	Enterprise:	
	TMU-Sewer	<u>1</u>
		72,830
Capital Projects	General	549,672
Enterprise: City Sewer	Enterprise: TMU-Electric	<u>55,000</u>
Total		<u>\$1,068,790</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had no business transactions between the City and City officials during the year ended June 30, 2015.

(9) Tama County Solid Waste Disposal Commission

The City, in conjunction with other municipalities in Tama County, has created the Tama County Solid Waste Disposal Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Commission will be prorated among the municipalities. The Commission is governed by a board composed of an elected representative to the governing body of each participating governmental jurisdiction. The Commission has accumulated \$2,064,319 for closure/post closure expenditures.

However, the Commission may not be accumulating sufficient financial resources and the participating governments may be obligated for a proportionate share of the debt, therefore, the City of Traer may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2015, the City paid the Tama County Solid Waste Disposal Commission \$27,248. During the year ended June 30, 2015, the City paid Cooley Sanitation \$119,628 for City wide pickup. The Sanitation is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Commission can be obtained from the Tama County Solid Waste Disposal Commission.

(10) Component Unit Detail

The Traer Ambulance Service is a component unit of the City of Traer. The Statement of Cash Receipts, Disbursements and Changes in Cash Balance for the year ended June 30, 2015 is as follows:

	<u>Traer Ambulance Service</u>
Operating receipts:	
Intergovernmental	\$ 1,650
Miscellaneous	29,096
General receipts:	
Unrestricted interest on investments	160
Total receipts	<u>30,906</u>
Operating disbursements:	
Public safety	<u>24,434</u>
Net change in cash balance	6,472
Cash balance beginning of year	<u>88,337</u>
Cash balance end of year	<u>\$ 94,809</u>

City paid to Ambulance Service

Meetings and calls	<u>\$ 1,650</u>
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(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Interdepartmental Loans

Water Control Project

The Enterprise Fund, TMU Electric has loaned the Enterprise Fund, TMU Water \$60,000 for the water control project. This loan is a non-interest bearing note, payable from the revenue of the water fund. No payment schedule has been established.

(13) Lease Purchase Agreement

In April 2010, the City entered into a lease purchase agreement with Norseman Wind Energy, LLC for the use of energy produced by the wind turbine. The lease was for \$1,080,000 that will be paid over a six year period. When the City has purchased 30,584,982 kwh and all lease payments have been made, Norseman Wind Energy, LLC will convey all rights, titles and interests of the wind turbine to the City. The imputed interest rate is 0%. Estimated annual payments from the City are as follows:

<u>Year Ending June 30,</u>	<u>Total Amount</u>
2016	180,000
2017	180,000
2018	<u>90,000</u>
Total	<u>\$ 450,000</u>

(14) Economic Development

The City of Traer is still working with the Traer Development Corp. on selling the abandoned manufacturing plant and adjacent farm land to Heartland Power Coop for future development of a new elevator.

(15) Commitments

As of June 30, 2015, the City had the following commitments with respect to the following projects:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
Mill Street Bridge (Engineering Contract)	\$ 7	FALL 2015
Mill Street Bridge (Construction Contract)	<u>7,950</u>	
Total	<u>\$ 7,957</u>	

(16) Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 15, 2015.

Other Information

City of Traer
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 815,962	-
Other city tax	115,890	-
Licenses and permits	1,413	-
Use of money and property	6,261	389
Intergovernmental	515,414	-
Charges for service	314,827	2,940,860
Miscellaneous	68,275	-
Total receipts	<u>1,838,042</u>	<u>2,941,249</u>
Disbursements:		
Public safety	509,965	-
Public works	400,699	-
Health and social services	4,482	-
Culture and recreation	209,237	-
Community and economic development	102,326	-
General government	147,098	-
Debt service	279,128	-
Capital projects	533,622	-
Business type activities	-	2,937,970
Total disbursements	<u>2,186,557</u>	<u>2,937,970</u>
Excess (deficiency) of receipts over (under) disbursements	(348,515)	3,279
Other financing sources, net	<u>106,502</u>	<u>(106,502)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(242,013)	(103,223)
Balances beginning of year	<u>1,698,364</u>	<u>1,116,055</u>
Balances end of year	<u>\$ 1,456,351</u>	<u>1,012,832</u>

See accompanying independent Auditors' report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
815,962	799,079	799,079	\$ 16,883
115,890	103,376	113,376	2,514
1,413	4,400	4,400	(2,987)
6,650	625	625	6,025
515,414	422,726	522,726	(7,312)
3,255,687	3,214,204	3,214,204	41,483
68,275	53,500	118,500	(50,225)
4,779,291	4,597,910	4,772,910	6,381
509,965	460,052	640,052	130,087
400,699	393,831	408,831	8,132
4,482	9,097	14,097	9,615
209,237	216,505	228,505	19,268
102,326	81,345	141,345	39,019
147,098	146,355	161,355	14,257
279,128	385,143	385,143	106,015
533,622	500,000	550,000	16,378
2,937,970	3,132,650	3,132,650	194,680
5,124,527	5,324,978	5,661,978	537,451
(345,236)	(727,068)	(889,068)	543,832
-	-	50,000	(50,000)
(345,236)	(727,068)	(839,068)	493,832
2,814,419	2,583,232	2,583,232	231,187
2,469,183	1,856,164	1,744,164	\$ 725,019

Other Information

City of Traer

Notes to Other Information – Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased the receipts by \$175,000 and increased disbursements by \$337,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did exceed the amounts budgeted in the public works function.

Other Information

City of Traer
Schedule of the City's Proportionate Share of the Net Position Liability

Iowa Public Employees' Retirement System
June 30, 2015
(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the Net Pension Liability.	0.010012
City's proportionate share of the Net Pension Liability	\$397
City's covered-employee payroll	\$89
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll.	4.46%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

- The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Traer
Schedule of City Contributions

Iowa Public Employees' Retirement System
June 30, 2015
(In Thousands)

Other Information

	2015	2014	2013	2012
Statutorily required contribution	\$ 69	\$ 67	\$ 60	\$ 56
Contributions in relation to the statutorily required contribution	\$ (69)	\$ (67)	\$ (60)	\$ (56)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 836	\$ 808	\$ 743	\$ 746
Contributions as a percentage of covered-employee payroll	8.25%	8.29%	8.08%	7.51%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

	<u>2011</u>	<u>2010</u>
Statutorily required contribution	\$ 48	\$ 46
Contributions in relation to the statutorily required contribution	<u>\$ (48)</u>	<u>\$ (46)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 744	\$ 756
Contributions as a percentage of covered-employee payroll	6.45%	6.08%

Other Information

City of Traer

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits were lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate close 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study.

- Adjusted retiree monthly assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also

included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

City of Traer

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2015

	Special Revenue		
	Employee	Local Option	
	Benefits	Sales Tax	Total
Receipts:			
Property tax	146,386	-	146,386
Other city tax	-	106,690	106,690
Intergovernmental	-	-	-
Total Receipts	146,386	106,690	253,076
Disbursements:			
Operating:			
Public Works	-	-	-
Community and economic development	-	31,470	31,470
Total Disbursements	-	31,470	31,470
Excess (deficiency) of receipts over (under) disbursements	146,386	75,220	221,606
Other financing sources:			
Operating transfers out	(146,386)	(69,992)	(216,378)
Net change in cash balances	-	5,228	5,228
Cash balances beginning of year	-	24,319	24,319
Cash balances end of year	-	29,547	29,547
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	-	29,547	29,547
Total cash basis fund balances	-	29,547	29,547

See accompanying independent Auditors' report.

City of Traer
Schedule of Indebtedness
Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Series 2007	Aug 20, 2007	3.90-4.30	750,000
Capital Loan Notes 2011	May 3, 2011	1.00-3.40	660,000
Capital Loan Note 2013	May 1, 2013	0.45-2.00	830,000
Capital Loan Note 2014	Jun 16, 2014	1.50-2.10	520,000
Total			
Revenue bonds:			
Electric Capital Revenue 2011	Jul 6, 2011	0.85-2.65 %	\$ 980,000
Total			
State revolving loans:			
2001 Sewer Revenue Bond	Aug 19, 2001	1.75 %	\$ 757,000
2003 Sewer Revenue Bond	Aug 5, 2003	1.75	101,000
Total			

See accompanying independent Auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
380,000	-	75,000	305,000	15,974	-
395,000	-	95,000	300,000	10,637	-
715,000	-	110,000	605,000	8,992	-
520,000	-	-	520,000	9,200	-
<u>\$ 2,010,000</u>	<u>-</u>	<u>280,000</u>	<u>1,730,000</u>	<u>44,803</u>	<u>-</u>
580,000	-	140,000	440,000	12,675	-
<u>\$ 580,000</u>	<u>-</u>	<u>140,000</u>	<u>440,000</u>	<u>12,675</u>	<u>-</u>
380,000	-	41,000	339,000	6,650	-
53,000	-	5,000	48,000	928	-
<u>\$ 433,000</u>	<u>-</u>	<u>46,000</u>	<u>387,000</u>	<u>7,578</u>	<u>-</u>

Supplementary Information

City of Traer
Bond and Note Maturities

June 30, 2015

General Obligation Bonds									
Year Ending June 30,	Series 2007		Series 2011		Series 2013		Series 2014		Total
	Issued Aug 20, 2007		Issued May 3, 2011		Issued May 1, 2013		Issued June 16, 2014		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2016	4.15	75,000	1.75	90,000	0.75	105,000	1.85	15,000	285,000
2017	4.20	80,000	2.70	40,000	1.20	100,000	1.85	60,000	280,000
2018	4.25	85,000	2.70	45,000	1.20	100,000	1.90	60,000	290,000
2019	4.30	65,000	2.70	45,000	1.20	100,000	1.97	85,000	295,000
2020	-	-	3.40	45,000	2.00	100,000	2.10	150,000	295,000
2021	-	-	3.40	35,000	2.00	100,000	2.10	150,000	285,000
Total		\$ 305,000		\$ 300,000		\$ 605,000		\$ 520,000	1,730,000

Revenue Bonds			
Electric Capital 2011			
Year Ending June 30,	Issued July 6, 2011		Total
	Interest Rates	Amount	
2016	1.95	140,000	140,000
2017	2.30	150,000	150,000
2018	2.65	150,000	150,000
Total		<u>\$ 440,000</u>	<u>440,000</u>

State Revolving Loans					
Year Ending June 30,	2001 Sewer Revenue		2003 Sewer Revenue		Total
	Issued Aug 19, 2001		Issued Aug 5, 2003		
	Interest Rates	Amount	Interest Rates	Amount	
2016	1.75	43,000	1.75	5,000	48,000
2017	1.75	44,000	1.75	6,000	50,000
2018	1.75	46,000	1.75	6,000	52,000
2019	1.75	48,000	1.75	6,000	54,000
2020	1.75	50,000	1.75	6,000	56,000
2021	1.75	53,000	1.75	6,000	59,000
2022	1.75	55,000	1.75	6,000	61,000
2023		-	1.75	7,000	7,000
Total		\$ 339,000		\$ 48,000	387,000

See accompanying independent Auditors' report.

City of Traer

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2015	2014	2013	2012
Receipts:				
Property tax	\$ 815,962	\$ 795,209	\$ 751,740	733,854
Tax increment financing collections	-	-	-	-
Other city tax	115,890	113,930	127,561	96,253
Licenses and permits	1,413	1,497	890	640
Use of money and property	6,261	6,003	7,319	7,054
Intergovernmental	515,414	676,368	452,674	265,870
Charges for service	314,827	290,792	286,311	279,459
Miscellaneous	68,275	30,202	498,792	15,759
Total	<u>\$ 1,838,042</u>	<u>\$ 1,914,001</u>	<u>\$ 2,125,287</u>	<u>1,398,889</u>
Disbursements:				
Operating:				
Public safety	\$ 509,965	\$ 408,067	\$ 314,309	288,831
Public works	400,699	434,333	423,777	358,508
Health and social services	4,482	4,917	1,802	6,204
Culture and recreation	209,237	205,883	239,617	194,485
Community and economic development	102,326	60,824	95,314	95,064
General government	147,098	149,260	145,636	142,597
Debt service	279,128	271,102	886,618	282,929
Capital projects	533,622	698,441	283,099	146,581
Total	<u>\$ 2,186,557</u>	<u>\$ 2,232,827</u>	<u>\$ 2,390,172</u>	<u>1,515,199</u>

See accompanying independent Auditors' report.

2011	2010	2009	2008	2007	2006
693,194	678,331	654,765	586,025	529,737	488,081
-	-	-	-	38,387	30,519
103,577	101,763	100,986	99,065	98,890	85,221
1,183	465	3,250	560	1,157	1,688
8,084	7,969	22,421	52,548	48,317	21,673
226,485	312,496	196,741	634,435	658,826	293,987
328,700	320,441	308,275	286,166	275,814	267,246
16,175	54,032	36,365	36,541	117,090	353,987
<u>1,377,398</u>	<u>1,475,497</u>	<u>1,322,803</u>	<u>1,695,340</u>	<u>1,768,218</u>	<u>1,542,402</u>
395,845	417,896	273,554	241,390	238,436	277,207
433,608	440,949	359,911	348,085	332,536	343,485
9,438	7,772	7,302	9,469	9,163	7,882
227,952	176,831	168,456	181,152	153,465	156,602
116,794	167,571	107,527	226,156	131,431	104,266
133,710	131,271	132,973	131,735	134,765	139,770
528,436	371,082	360,438	290,524	321,710	245,761
171,280	290,022	221,407	518,952	550,686	1,711,090
<u>2,017,063</u>	<u>2,003,394</u>	<u>1,631,568</u>	<u>1,947,463</u>	<u>1,872,192</u>	<u>2,986,063</u>

City of Traer

MURPHY, SMITH & Co. PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor, Members of the City Council and
Board of Trustees, Traer Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2015 and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Traer's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Traer's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Traer's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Traer's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as item II-A-15 to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control we consider to be significant deficiencies as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Traer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Traer's response to Findings

The City of Traer's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Traer's responses were not subjected to the auditing procedures applied in the audit of the financial statements and. Accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Traer, Traer Municipal Utilities and the Traer Ambulance Service during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Murphy, Smith & Co. PLLC
Certified Public Accountants
Osage, Iowa

November 15, 2015

City of Traer
Schedule of Findings
June 30, 2015

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

June 30, 2015

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review our internal procedures to determine if changes can be made to improve internal control with existing personnel.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

III-B-15 Ambulance – There wasn't an invoice to support disbursement.

Recommendation - The City should have an invoice to support checks written.

Response - These procedures have been implemented as recommended.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Traer
Schedule of Findings

June 30, 2015

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-15 Certified Budget – Disbursements during the year ended June 30, 2015 did exceed the amount budgeted in public works.
- III-B-15 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- III-C-15 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-15 Business Transactions – There were no business transactions between the City and City officials or employees.
- III-E-15 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- III-F-15 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also board minutes were not signed for TMU.

Recommendation – The City and TMU should publish minutes as required and TMU should sign the minutes.

Response – We will continue to make every effort to publish minutes as required. However, with a local paper that is published only once per week, with a cutoff 3 days before publication, it can be difficult to do so within 15 days. We will comply with Chapter 21 of the Code of Iowa for all closed sessions.

Conclusion – Response accepted.

- III-G-15 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- III-H-15 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
- III-I-15 Telecommunications Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-15 Financial Condition – The City Fund had no deficit balances at June 30, 2015.

